



OFFICE OF THE GOVERNOR

Kathleen Sebelius, Governor

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April 20, 2009

The Honorable Jay Emler, Chairperson
Senate Committee on Ways and Means
Room 371-E, Statehouse

and

The Honorable Kevin Yoder, Chairperson
House Committee on Appropriations
Room 143-N, Statehouse

Dear Senator Emler:

The items contained in this memo, Governor's Budget Amendment No. 2, amend the revised FY 2009 and new FY 2010 budget that I submitted to you in January 2009. The items detailed here reflect new issues that have arisen, caseload adjustments, or changes that can be made based on new information. Two of these items change transfers to bring \$28.3 million to the State General Fund in FY 2009. Total adjustments to expenditures and positions are shown below.

	<u>FY 2009</u>	<u>FY 2010</u>
State General Fund	(\$ 20,842,293)	(\$ 1,506,662)
All Other Funds	<u>29,111,147</u>	<u>163,578,026</u>
All Funds	\$ 8,268,854	\$ 162,071,364
FTE Positions	--	1.00
Non-FTE Unclassified Permanent	<u>--</u>	<u>--</u>
Total Positions	--	1.00

As a result of the national economic recession, state revenues have plummeted by historic proportions. In response, we have eliminated programs, closed facilities, and dramatically reduced spending in all areas of state government, including K-12 and higher education. In light of the revised Consensus Revenue Estimate, there are still challenges that remain. I urge the

Legislature to now enact the numerous cost saving proposals I have recommended before proposing more cuts in essential services for vulnerable Kansans or making further cuts in education.

State Treasurer

1. Property Tax Slider

When I issued my original budget in January, I cautioned that revenues may not be available to make the property tax slider scheduled for FY 2009 and FY 2010. The Legislature has acted to suspend the slider in FY 2010, but the second half of the slider is scheduled to be released June 1, 2009. Because the revenue picture has been altered since my original budget was developed, I now must recommend that the second half of the slider payment be suspended, saving the State General Fund \$25.0 million.

Kansas Public Employees Retirement System

2. Kansas Endowment for Youth Fund Transfer

Payments to Kansas from the master tobacco settlement have been greater than estimated in FY 2009. I therefore amend my budget to transfer \$3.25 million of extra revenue from the Kansas Endowment for Youth (KEY) Fund to the State General Fund in FY 2009. The transfer will help shore up the balance in the State General Fund without affecting previously approved transfers and expenditures from the KEY Fund.

Department of Administration

3. Statehouse Bonding Authority

In response to the request of Senate Leadership, I recommend that the Legislature endorse additional bonding authority of \$38.0 million, which is the amount required to keep the Statehouse renovation project operating toward the last phase in FY 2010. Debt service payments on these bonds will not begin until FY 2011.

Board of Indigents Defense Services

4. Caseload Estimates and Capital Defense Adjustment

I amend my budget to increase State General Fund expenditures for the Board of Indigents Defense Services in FY 2009 by \$597,825. This figure includes a reduction of \$448,750 from the Assigned Counsel Program and was arrived at through a consensus caseload process involving the Division of the Budget, Kansas Legislative Research Department, and the agency. The revised estimate accounts for a declining caseload and certain judicial districts

having agreed to accept a rate lower than the current \$80 per hour. In addition, the figure includes an increase in expenditures from the State General Fund of \$1,046,575, which includes \$421,767 for increasing costs in the Capital Defense Program and \$624,808 for increased expert witness costs as a result of Jessica's Law cases. In FY 2010, the agency's budget can be reduced \$165,000, also from the State General Fund.

	<u>FY 2009</u>	<u>FY 2010</u>
State General Fund	\$ 597,825	\$ (165,000)
All Other Funds	--	--
All Funds	<u>\$ 597,825</u>	<u>\$ (165,000)</u>

**Department of Social & Rehabilitation Services and
Department on Aging and Kansas Health Policy Authority and Juvenile Justice Authority**

5. Caseload Adjustments

I amend my FY 2009 and FY 2010 budget to reflect changes in caseloads and the cost of assistance programs. These adjustments are the result of consensus caseload estimates that involved the staff of the Health Policy Authority, the Department of Social and Rehabilitation Services, the Legislative Research Department, the Department on Aging, the Juvenile Justice Authority, and the Division of the Budget. The consensus estimates include Regular Medical Assistance, Nursing Facilities, Temporary Assistance to Families (TAF), General Assistance, and Reintegration/Foster Care. This was the first Consensus Caseload meeting to include estimates for JJA out-of-home services. The Legislature recommended JJA's request to include its out of home placement services and psychiatric residential treatment facility services in the caseload estimating process. Both the population and services provided to children in JJA custody are similar to the population and services provided to children in SRS custody. The children are court ordered into the custody of the Commissioner of JJA and the Commissioner must accept custody. The estimating group used the budget as approved in 2009 Substitute for Senate Bill No. 23 and 2009 House Bill No. 2354 as the starting point for the current estimates.

For FY 2009, this amendment includes an increase from all funding sources of \$7.7 million, but a decrease of \$17.5 million from the State General Fund. The increase in caseload expenditures is the result of higher expenditures in the Regular Medical Assistance Program, mental health programs, Nursing Facilities for Mental Health, community supports and services, and JJA out-of-home services. These increases were partially offset by decreases in the estimates for Nursing Facilities, Targeted Case Management in the Department on Aging, JJA psychiatric residential treatment facility services, Temporary Assistance to Families, General Assistance, Foster Care, and substance abuse services. The reduction in the State General Fund estimate for caseload programs is largely due to the enhanced federal Medicaid funding included in the American Recovery and Reinvestment Act of 2009 (ARRA). The 2009 Legislature adopted my first budget amendment that captured State General Fund savings in Medicaid programs by applying the 6.2 percent enhanced Federal Medical Assistance Percentage rate. Beginning on April 1, 2009, the American Recovery and Reinvestment Act provisions provided another Federal Medical Assistance Percentage rate increase of 2.03 percent which was triggered

by an increase in Kansas' unemployment rate. Therefore additional State General Fund savings are reflected in the new caseload estimate.

For FY 2010, the estimate is an increase of \$5.8 million from all funding sources, but a decrease of \$20.8 million from the State General Fund. These adjustments include decreases from all funding sources of \$6.5 million for Regular Medical Assistance, \$3.1 million for JJA's psychiatric residential treatment facility program, and \$657,899 for the Department on Aging's Targeted Case Management program. These programs are still expected to increase over FY 2009 expenditures, but the growth in beneficiaries and program expenditures are not expected to increase as much as was originally estimated. The estimate for SRS' Reintegration/Foster Care program is decreased by \$1.2 million from all funding sources and \$5.5 million from the State General Fund. Savings will be realized from new provider contracts that cut administrative costs and will begin on July 1, 2009. In addition, SRS has improved its practices that influence the amount of federal funding that can be drawn for the program, so less State General Fund is required. Increased program expenditures are included for Nursing Facilities, Nursing Facilities for Mental Health, mental health programs, community supports and services, addiction and prevention services, and JJA's out-of-home services. Increases can be attributed to increases in the number of persons served and increases in the cost of services. Additional State General Fund savings that will result from the recent the American Recovery and Reinvestment Act Federal Medical Assistance Percentage increase are again reflected in the FY 2010 estimate. The federal match rate used for FY 2010 caseload estimates assumes that an additional FMAP increase will occur beginning January 1, 2010, for Medicaid expenditures, again resulting from an increased Kansas unemployment rate.

Health Policy Authority:	<u>FY 2009</u>	<u>FY 2010</u>
State General Fund	(\$ 13,562,555)	(\$ 19,220,105)
All Other Funds	<u>22,518,800</u>	<u>12,748,075</u>
All Funds	\$ 8,956,245	(\$ 6,472,030)
Dept. of SRS:	<u>FY 2009</u>	<u>FY 2010</u>
State General Fund	(\$ 4,391,604)	(\$ 4,266,576)
All Other Funds	<u>4,575,667</u>	<u>11,782,216</u>
All Funds	\$ 184,063	\$ 7,515,640
Dept. on Aging:	<u>FY 2009</u>	<u>FY 2010</u>
State General Fund	(\$ 2,781,460)	(\$ 1,052,423)
All Other Funds	<u>(18,540)</u>	<u>3,281,195</u>
All Funds	(\$ 2,800,000)	\$ 2,228,772

Juvenile Justice Authority:	<u>FY 2009</u>	<u>FY 2010</u>
State General Fund	\$ 3,255,718	\$ 3,769,578
All Other Funds	<u>(1,924,997)</u>	<u>(1,203,596)</u>
All Funds	\$ 1,330,721	\$ 2,565,982

Department of Social and Rehabilitation Services

6. FMAP Adjustment for Non-Caseload Medicaid Programs

The 2009 Legislature adopted my first budget amendment that captured State General Fund savings in Medicaid programs by applying the 6.2 percent enhanced Federal Medical Assistance Percentage (FMAP) rate. Beginning on April 1, 2009, the American Recovery and Reinvestment Act provisions provided another FMAP rate increase of 2.03 percent which was triggered by an increase in Kansas' unemployment rate. Therefore, additional State General Fund savings are reflected in the new caseload estimate. The federal match rate used for FY 2010 caseload estimates assumes that an additional FMAP increase will occur beginning January 1, 2010, for Medicaid expenditures, again resulting from an increased Kansas unemployment rate. I amend my budget to capture State General Fund savings resulting from the increased federal funding in Medicaid Programs that are not included in the consensus caseload estimates.

Dept. of SRS:	<u>FY 2009</u>	<u>FY 2010</u>
State General Fund	\$ (3,527,560)	\$ (1,674,347)
All Other Funds	<u>3,527,560</u>	<u>1,674,347</u>
All Funds	\$ --	\$ --

Dept. on Aging:	<u>FY 2009</u>	<u>FY 2010</u>
State General Fund	\$ (432,657)	\$ (367,239)
All Other Funds	<u>432,657</u>	<u>367,239</u>
All Funds	\$ --	\$ --

Kansas Health Policy Authority

7. Clearinghouse Capacity

I amend my budget to add \$44,000 for the Authority to hire an on-site Clearinghouse state staff position, which has been held vacant to meet salary and wage targets within the FY 2010 budget. Recommended funding for the Authority also includes \$60,000 for 1.00 new FTE on-site state position as well as \$244,000 for additional contract positions. These additional positions will reduce the current Clearinghouse backlog of applications and reviews. Also, the recommendation includes \$150,000 for computer system changes related to the Medicaid coverage expansion for pregnant women and the State Children's Health Insurance Program expansion. Of the \$498,000 total, \$217,450 is from the State General Fund.

	<u>FY 2009</u>	<u>FY 2010</u>
State General Fund	\$ --	\$ 217,450
All Other Funds	<u>--</u>	<u>280,550</u>
All Funds	\$ --	\$ 498,000
FTE Positions	--	1.00
Non-FTE Unclassified Permanent	<u>--</u>	<u>--</u>
Total Positions	--	1.00

8. Wichita Center for Graduate Medical Education

I amend my FY 2010 budget to add \$3.5 million from the State General Fund for the KHPA Medicaid Regular Medical Program. This funding will allow KHPA to draw down \$2.4 million in federal funding through the Medicaid process for additional resources available totaling \$5.9 million. The funding will be granted to the teaching hospitals associated with the Wichita Center for Graduate Medical Education (WCGME) program, allowing these hospitals to be compensated for the additional cost of providing training to new doctors and retain accreditation. In the future, the WCGME grant funding should be determined through the annual caseload determination process. The American Recovery and Reinvestment Act funding authorization approved by the Legislature for WCGME in the mega appropriations bill is not available to be accessed.

	<u>FY 2009</u>	<u>FY 2010</u>
State General Fund	\$ --	\$ 3,500,000
All Other Funds	<u>--</u>	<u>2,400,000</u>
All Funds	\$ --	\$ 5,900,000

Department of Education

9. Special Education—Part B

As additional information is made available on the American Recovery and Reinvestment Act programs, it is now known that savings can be realized in the state's budget for the portion of the Special Education program known as Part B, which is for early childhood programs in school districts. Therefore, I amend my budget to recognize additional savings to the State General Fund in FY 2010 of \$2,248,000. A similar amount will be saved in FY 2011.

	<u>FY 2009</u>	<u>FY 2010</u>
State General Fund	\$ --	(\$ 2,248,000)
All Other Funds	<u>--</u>	<u>--</u>
All Funds	\$ --	(\$ 2,248,000)

Adjutant General

10. Disaster Relief

Kansas has experienced numerous weather-related disasters in recent years and the Adjutant General has responded to all of them on our behalf. Using updated cost estimates, I amend my budget to finance the state and federal portions of this ongoing disaster relief effort. My original budget recommendation did not include the cost for electric cooperatives for the federally-declared December 2007 winter weather disaster that affected many Kansas counties, because allowed costs had not been determined at the time my budget recommendations were made. The state's portion of the electric cooperatives is estimated to cost \$31.0 million for the December 2007 disaster. However, this amount will be paid over several years.

The agency estimates that it may require an additional \$20,980,095, including \$3,064,474 from the State General Fund, for FY 2009 and \$210,618,611, including \$24,900,609, from the State General Fund, for FY 2010. Because the agency has approximately \$2.7 million remaining in its Disaster Relief Fund, I am recommending additional funds only for FY 2010. I amend my budget to add \$170.0 million, including \$20.0 million from the State General Fund, for FY 2010 to finance the disaster relief effort. Additional state match funding may need to be added when updated cost estimates are revised later in FY 2010.

	<u>FY 2009</u>	<u>FY 2010</u>
State General Fund	\$ --	\$ 20,000,000
All Other Funds	<u>--</u>	<u>150,000,000</u>
All Funds	\$ --	\$170,000,000

Sincerely,



Kathleen Sebelius
Governor of the State of Kansas